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SCINTREX annual report 1980

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Five Year Financial Review — Years Ended January 31

	1980	1979	1978	1977	1976
	(thousands of dollars)				
Sales	11,222	9,007	5,850	4,938	3,883
Income (loss) before extraordinary items	954	726	191	62	(28)
Net income	954	827	357	202	94
Cash flow from operations	1,447	1,071	538	297	305
Research and development expenses (net)	998	757	580	432	311
Working capital	2,097	1,700	1,271	1,025	749

Common Share Data

Income (loss) before extraordinary items	\$ 1.06	\$ 0.81	\$ 0.20	\$ 0.05	\$ (0.04)
Net income	\$ 1.06	\$ 0.92	\$ 0.39	\$ 0.20	\$ 0.07
Cash flow from operations	\$ 1.62	\$ 1.20	\$ 0.60	\$ 0.32	\$ 0.33
Shareholders' equity at book value	\$ 4.10	\$ 3.10	\$ 2.17	\$ 1.79	\$ 1.61
Return on equity	29.6%	35.3%	19.8%	12.5%	5.2%
Weighted average number of shares outstanding	883,158	874,324	858,156	857,765	853,535

The Company

Scintrex Limited is a Canadian-owned company engaged in the research, design and manufacture of geophysical and geochemical exploration instrumentation, nuclear reactor monitoring devices, and other scientific products. The company also provides ground and airborne exploration and consulting services.

Scintrex's products, services and know-how have contributed directly to numerous mineral discoveries around the world. Over 75% of the company's sales are exported to over fifty different countries. Among Scintrex's clients are major mining companies, the United Nations, and governmental agencies in Canada and abroad.

Since the company's inception in 1960, in-house research and development has been the primary source of new products and services. Scintrex's scientists are engaged in a variety of development programs ranging from basic research in pure physics and chemistry directed to improving exploration techniques, to the adaptation of new developments in electronics for the production of more accurate and reliable instrumentation.

Annual Meeting

The Annual General Meeting will be held June 25, 1980 at 10 a.m. in the Saskatchewan Room of the Royal York Hotel, Toronto.



Report to the Shareholders

The year ended January 31, 1980 was successful for Scintrex in terms of both sales and earnings growth. At the same time, the company continued to strengthen its financial position.

Consolidated sales increased 25% to \$11,222,000 compared to \$9,007,000 in the previous year. Net income after taxes of \$954,000 (\$1.06 per share) represented a gain of 31% compared to \$726,000 (\$0.81 per share) for the previous year.

The company is in an excellent financial condition. Working capital increased to \$2,097,000, a gain of \$393,000 in the year, despite the scheduled retirement of a \$456,000 long-term mortgage in September, 1980.

Shipments of earth science equipment — the largest segment of Scintrex's business — were up 23% over the previous year. Exports comprised 83% of sales with no one market

accounting for more than 10% of the total. These results reflected an increased demand for base metal exploration equipment which was inspired by higher base metal prices. At the same time, interest in uranium exploration instruments decreased somewhat.

Scintrex performed an unusually broad range of exploration contracting services in North America in 1979. They included helicopter-borne electromagnetic and fixed-wing Tridem surveys for base metals and uranium and ground surveys using induced polarization (IP), Turam electromagnetic, Schlumberger sounding and audio frequency magnetotelluric methods.

Our subsidiary company in Australia achieved record sales and earnings gains of 42% and 89% respectively. There was expanded exploration activity for base metals, diamonds and uranium using airborne magnetic and radiometric surveying. The company's ground

survey business was also buoyant with increased work in rapid reconnaissance magnetic induced polarization (RRMIP) and IP. As a result, the Australian operations made a material contribution to the profits of Scintrex for the year.

In December, 1979, Scintrex was awarded a \$1,100,000 contract to provide a computer system for the Ministry of Geology of the People's Republic of China. The new system will process and interpret airborne geophysical data obtained by a specially equipped DHC-6 Twin Otter aircraft which was delivered to China in August of that year under an earlier contract with Scintrex and DeHavilland Aircraft of Canada Limited. Under this new contract Scintrex is providing the basic computer and peripheral devices for plotting data on maps, as well as software programs for interpreting geophysical data. The contract includes a provision to train the client's personnel in the operation and maintenance of the system hardware and computer programs.

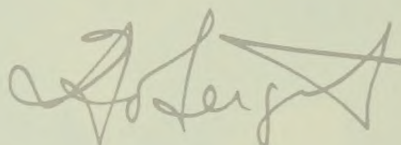
Sales of nuclear power plant instrumentation increased by 57% over the previous year with shipments being made to users of CANDU reactors in Canada, Argentina and Korea. For the second consecutive year this division increased its contribution to profits.

The company continued to invest heavily in research and development. R & D expenditures totalled \$1,190,000 (10.6% of total sales), a gain of 34% over the previous year. Grants from the Canadian Government and private industry were \$192,000. R & D, during the year, concentrated on the development of a broad range of products, including new induced polarization equipment, analytical instruments, airborne electromagnetic systems and radioactivity measuring devices.

In June, 1979, Mr. Denis Whitaker was elected a Director of the company. We take this opportunity to welcome him to our Board, having in the interim benefited from his prudent counsel.

It is expected that the current year will be a successful one for Scintrex. As at January 31, 1980, the company had a backlog of orders for equipment and services of about \$5.1 million, 10% higher than a year earlier. Looking further ahead, management is confident that Scintrex has the resources of people, capital and technical skills to achieve significant progress in sales and profits in the 1980's.

In closing, I would like to thank all employees for their contribution to the success of the company over the past year. I should also like to express my appreciation to the Board of Directors for their valuable advice and assistance during a very challenging year.



Harold O. Seigel, Ph.D., P.Eng.
President

May 5, 1980

Products and Services

Exploration Equipment Division

This is the major part of Scintrex's business. It includes the design, development and manufacture of geophysical and geochemical instruments for the mining industry including

Radiometrics: Uranium deposits emit gamma radiation. Scintrex gamma-ray detecting instruments for uranium exploration range from scintillation counters and spectrometers used for ground prospecting to complex airborne radiometric systems which collect computer-compatible data. For example, the GAD-6 four channel gamma-ray spectrometer which was introduced in 1977 is still regarded as the most advanced instrument of its type. Its versatility permits it to be used for borehole logging, airborne and vehicular surveying, and for ground survey work where it can be carried by hand.

Geochemistry: The company has invested a large portion of its research funds to develop instrumentation for elemental analysis. A major success has been the unique UA-3 Uranium Analyzer, which is based on a patented laser-induced fluorescence phenomenon. This highly sensitive instrument is capable of measuring as little as 0.05 parts per billion of uranium in natural waters or aqueous solutions derived from silts, soils, rocks, effluent or other media. Suitable for use in remote base camps, the analyzer can perform uranium analysis within minutes of the sample gathering, compared to the weeks it previously took to transport and analyze samples in remote laboratories. The UA-3 has gained wide acceptance as a basic analytical tool for both field and laboratory in exploration, health physics and in process control at uranium mills.

Other instruments in the group include the HGG-3, fully portable, automatic absorption spectrometer which measures mercury in soils, soil gases, rocks, water and sediments; and the ETR-1 Emanometer which traces radon and thoron in soil gas.

Scintrex is currently developing new electro-optical devices designed to analyze for trace amounts of other elements.

Induced Polarization: Induced polarization (IP) equipment employed in base metal ground surveying is a major product group. The IP technique was developed by Dr. Seigel in 1948 and it has played an important role in several major mineral discoveries. The company has recently developed a new IP receiver containing its own microprocessor, as well as new transmitters, as part of the ongoing process of improving the speed, accuracy and versatility of this equipment in the field.

Magnetics: Scintrex has been producing magnetometers since the late 1940's, and pioneered in the development of the electronic magnetometer in 1961. These instruments are used in ground and airborne applications, for mineral and petroleum exploration, geological mapping, and for geophysical research.

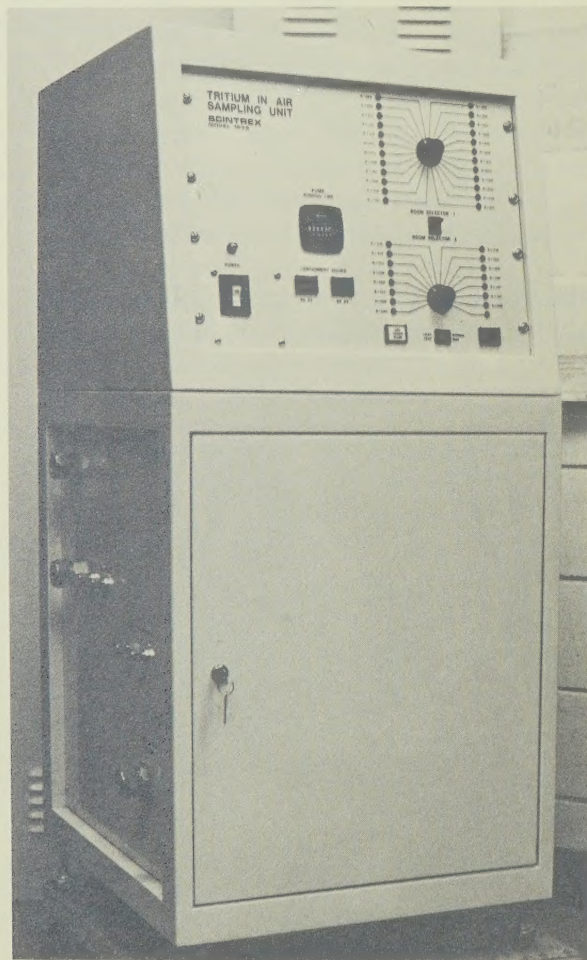
Electromagnetics: The company manufactures electromagnetic equipment for base metal



KUT Radiometric Logging Station for drillhole measurements.



SM-5 Digital Magnetic Susceptibility Meter for logging cores.



Tritium-In-Air-Monitor for nuclear power plants.

surveying from the air and on the ground. In recent years it has focused its efforts on the development of three unique airborne systems: the Turair and HEM-802 for helicopter surveys and the Tridem for fixed-wing aircraft. A recent successful example of the use of the Tridem system was its installation in a De Havilland Twin Otter for survey work in the People's Republic of China.

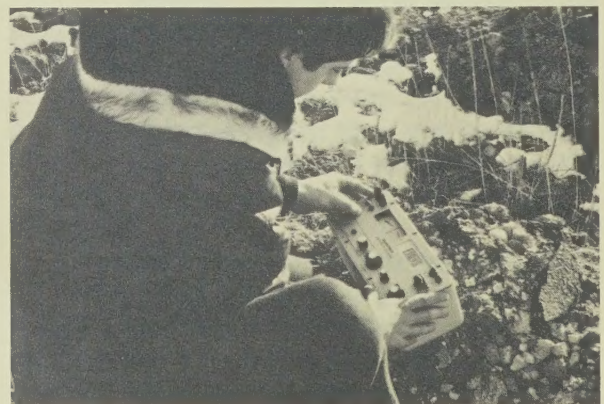
Exploration Services Contracting Division

Scintrex's professional staff of geophysicists and technicians provide contract exploration and consulting services in more than forty countries, and their technical excellence has contributed directly to at least sixteen major mineral discoveries.

Due to its unusually broad product line, Scintrex is able to offer a complete range of ground, airborne and drillhole geophysical surveys as well as many geochemical services. In addition, this division gives the company an in-house testing facility for examining new equipment under field conditions.

Contract Instrumentation Division

The company produces sophisticated electronic instrumentation for uses unrelated to mining exploration. For example, in 1974 Scintrex began developing monitoring instrumentation for CANDU nuclear power plants. Since then the company has manufactured tritium-in-air monitors, trip test amplifiers, reactivity control logic cabinets, shut-off rod logic modules, thermoluminescent plaques, an auto urinalyzer,



IPR-10A Induced Polarization Receiver for base metal exploration.

a laundry monitor and logic panels for shut-down systems. The equipment has been sold to CANDU reactor users in Ontario, Quebec, New Brunswick, Korea and Argentina.

Research and Development

Management views research and development as being of vital importance to the growth and prosperity of Scintrex; virtually all current sales of instruments and services are based on products and techniques developed within the last ten years.

The R & D department is a key group with 45 employees, including 15 professional engineers, trained in such diverse areas as electronics, mechanical and chemical engineering, nuclear physics and nuclear chemistry. The department comprises seven primary sections: Electronic Instrumentation, Nuclear Applications Research Laboratory, Analytical Instrumentation, CANDU Reactor Instrumentation, Mechanical Engineering, Design and Documentation, and Systems Engineering. This structure allows specialists to be drawn from different sections to solve technical problems in a variety of R & D projects.

In the past five years Scintrex has invested about \$2.5 million in R & D.

Marketing

The mining industry is Scintrex's primary market. Customers are — major mining companies, geological surveys of governments in many countries, international agencies such as the United Nations and the International Atomic Energy Agency, and educational institutions. Commissioned agents represent the company in about 50 countries.

Exports comprise more than 75% of all exploration equipment sold, with no one country accounting for more than 10% of sales. The largest importers of products in recent years have been Algeria, Australia, Brazil, the People's Republic of China, India, Mexico, Sweden, and the U.S.A. No single instrument accounts for more than 10% of total equipment sales.

Facilities

The Concord plant, measuring 46,000 sq. ft., serves as the head office and houses manufacturing, R & D, marketing and administration. This modern facility is owned by the company. Scintrex's U.S. agent owns a plant in Salt Lake City, Utah for assembling, repairing and maintaining a lease-pool of equipment, and the Australian subsidiary has similar facilities in Sydney and Perth.

In 1979 the company installed an IBM System 34 computer for production and inventory control, scientific applications and financial accounting. As a result, inventory turnover rates and customer deliveries have materially improved.

Consolidated Balance Sheet — January 31

Assets	1980	1979
Current:		
Cash	\$ 75,418	\$ 66,590
Accounts receivable	1,755,865	1,627,004
Inventories (Note 2)	2,063,506	2,221,542
Survey contracts in progress	433,518	198,461
Prepaid expenses and sundry assets	15,975	24,400
	<u>4,344,282</u>	<u>4,137,997</u>
Property, plant and equipment (Note 3)	1,748,586	1,573,362
Other (Note 4)	173,838	215,024
	<u>\$6,266,706</u>	<u>\$5,926,383</u>
Liabilities		
Current:		
Bank indebtedness (Note 5)	\$ 218,836	\$ 333,538
Customer deposits	188,464	326,883
Accounts payable and accrued liabilities	1,250,622	1,458,641
Income taxes	29,095	309,082
Deferred income taxes	103,370	—
Current portion of long-term debt	456,420	5,137
	<u>2,246,807</u>	<u>2,433,281</u>
Long-term debt (Note 6)	—	456,420
Deferred income taxes	69,000	—
	<u>69,000</u>	<u>—</u>
Shareholders' Equity		
Capital stock (Note 7)	1,689,204	1,689,204
Retained earnings	2,263,479	1,368,584
	<u>3,952,683</u>	<u>3,057,788</u>
Less common stock in treasury, at cost (Note 7)	1,784	21,106
	<u>3,950,899</u>	<u>3,036,682</u>
	<u>\$6,266,706</u>	<u>\$5,926,383</u>

On behalf of the Board:
HAROLD O. SEIGEL, Director
ALFRED J. SHAUL, Director

See accompanying notes.

Consolidated Statement of Income — Year Ended January 31

	1980	1979
Sales	411,232,337	\$9,007,473
Cost of sales and operating expenses	6,264,008	6,629,839
Research and development expenses	1,189,963	886,324
Depreciation and amortization	407,615	345,787
Interest on long-term debt	52,827	53,241
Interest on short-term borrowings	38,303	77,488
	10,052,696	7,992,679
Less research and development grants	191,169	129,795
	9,861,527	7,862,884
Income before income taxes	1,370,810	1,144,589
Income taxes:		
Current	367,193	419,000
Deferred	172,230	—
	539,423	419,000
Income before extraordinary item	831,387	725,589
Extraordinary item (Note 9)	—	101,000
Net income	1,831,341	\$ 826,589

Earnings per share: See Note 10.

See accompanying notes.

Consolidated Statement of Retained Earnings — Year Ended January 31

	1980	1979
Retained earnings, beginning of year	\$1,368,584	\$ 541,995
Net income	953,845	826,589
	<u>2,322,429</u>	<u>1,368,584</u>
Dividends paid on preference shares	58,950	—
Retained earnings, end of year	<u>\$2,263,479</u>	<u>\$1,368,584</u>

See accompanying notes.

Consolidated Statement of Changes in Financial Position — Year Ended January 31

	1980	1979
Funds provided:		
Income before extraordinary item	\$ 953,845	\$ 725,589
Depreciation and amortization	407,615	345,787
Non-current deferred income taxes	69,000	—
Loss on disposal of assets	16,122	—
Working capital from operations	<u>1,446,582</u>	<u>1,071,376</u>
Income tax reduction arising from application of losses of prior years	—	101,000
Proceeds from sale of property and equipment	37,104	101,555
Proceeds from disposition of treasury stock	3,200	18,500
	<u>1,486,886</u>	<u>1,292,431</u>
Funds used:		
Additions to property and equipment	578,757	853,419
Reduction of long-term debt	456,420	5,137
Purchase of treasury stock	—	464
Dividends paid on preference shares	58,950	—
	<u>1,094,127</u>	<u>859,020</u>
Increase in working capital	392,759	433,411
Working capital, beginning of year	<u>1,704,716</u>	<u>1,271,305</u>
Working capital, end of year	<u>\$2,097,475</u>	<u>\$1,704,716</u>

See accompanying notes.

Notes to Consolidated Financial Statements

1. Summary of significant accounting policies

Principles of consolidation:

These financial statements include the accounts of the company and its subsidiary companies, all of which are wholly-owned. All significant intercompany transactions are excluded from these financial statements.

Foreign exchange:

Current assets and liabilities have been translated at year-end rates of exchange and the remaining assets and liabilities at appropriate historical rates. Revenue and expenses have been translated at weighted average exchange rates for the year with the exception of depreciation and amortization which were based on the historical rates for the related assets.

Inventories:

Inventories are valued at the lower of cost (first in, first out) and net realizable value.

Survey contracts in progress:

The percentage of completion method of accruing profit on survey contracts in progress is used, with anticipated losses being provided in full.

Property, plant and equipment:

These assets are carried at cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets.

Other assets:

Commencing with the 1975 fiscal year, the excess of cost of subsidiary over book value on acquisition is being amortized on the straight-line method over 10 years. Patents and processes are being amortized on the straight-line method over 10 years.

Income taxes:

Deferred income taxes are provided to record the income tax effect of timing differences in reporting transactions for financial statement and income tax purposes. Such timing differences relate principally to depreciation and the reporting of income on survey contracts in progress.

2. Inventories:

	1980	1979
Raw materials	\$ 463,291	\$ 516,588
Work-in-progress	1,183,831	1,305,253
Finished goods	416,384	399,701
	<u>\$2,063,506</u>	<u>\$2,221,542</u>

A. Property, plant and equipment:	1980	1979
Building	\$ 822,541	\$ 776,802
Equipment	2,461,046	2,106,342
	3,283,587	2,883,144
Less accumulated depreciation	1,624,930	1,399,711
	1,658,657	1,483,433
Land	89,929	89,929
	<u>\$1,748,586</u>	<u>\$1,573,362</u>

B. Other assets:	1980	1979
Patents and processes, at cost less amortization	\$ 38,957	\$ 46,423
Excess of cost of subsidiary over book value on acquisition, less amortization	134,881	168,601
	<u>\$ 173,838</u>	<u>\$ 215,024</u>

C. Bank indebtedness:

The bank indebtedness is secured by a floating charge on all the assets of the company.

D. Long-term debt:	1980	1979
11¾%, secured by first mortgage on the land and building, maturing September 1, 1980	\$ 456,420	\$ 461,557
Less amounts due within one year	456,420	5,137
	<u>\$ —</u>	<u>\$ 456,420</u>

7. Capital stock:

Authorized:

350,000 6% Cumulative, non-voting, convertible, preference shares, par value \$1 each

3,000,000 Common shares, no par value

Issued:

	Preference		Common		Total consideration
	No. of shares	Par value	No. of shares	Consideration	
Outstanding at beginning and end of year	<u>327,500</u>	<u>\$327,500</u>	<u>885,015</u>	<u>\$1,361,704</u>	<u>\$1,689,204</u>
Common stock in treasury, at cost:					
January 31, 1980			<u>1,274</u>	<u>\$ 1,784</u>	
January 31, 1979			<u>5,274</u>	<u>\$ 21,106</u>	

Preference shares:

The preference shares may be converted at any time by the holder or holders thereof into fully-paid common shares (as presently constituted) of the company on the basis of one common for two preference shares. Dividends on these 6% cumulative preference shares are payable semi-annually on the last days of July and January of each year. These shares are non-voting unless the company has failed to pay dividends for a period of two years.

Employee stock option plan:

11,000 common shares remain under the company's revised 1971 Incentive Stock Option Plan. These options may be exercised during the three year period terminating December 31, 1980 at a price of \$0.80 per share.

8. Remuneration of directors and senior officer:

Total remuneration paid to directors and senior officers amounted to \$264,917 for the year (\$221,938 in 1979).

9. Extraordinary items

Reduction of income taxes on application of losses of prior years

	1980	1979
	<u>\$ —</u>	<u>\$101,000</u>

10. Earnings per share

Earnings per share are calculated based on the weighted average common shares outstanding — 883,158 (1979 — 874,324).

	1980	1979
Income before extraordinary item	\$1.06	\$0.81
Net income	1.06	0.92

Fully diluted earnings per share which would result if all the 6% preference shares were converted into fully paid common shares would be:

	1980	1979
Income before extraordinary item	\$0.89	\$0.70
Net income	0.89	0.80

Auditors' Report

To the Shareholders of
Scintrex Limited

We have examined the consolidated balance sheet of Scintrex Limited as at January 31, 1980 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Scintrex Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at January 31, 1980 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
April 18, 1980.

LAVENTHOL & HORWATH
Chartered Accountants.

Directors

Harold O. Seigel, Ph.D., P.Eng., President
Alfred J. Shaul, Q.C., Secretary
William L. Seigel, C.A., Management Consultant
Gerald Stork, C.A., P.Eng., Vice President
Jon G. Baird, P.Eng., Vice President
Harold I. Schiff, Ph.D., Professor of Chemistry
J. Denis Whitaker, Management Consultant

Officers

Harold O. Seigel, Ph.D., P.Eng.
President
Gerald Stork, C.A., P.Eng.
Vice President, Finance and Administration
Jon G. Baird, B.Sc., P.Eng.
*Vice President and General Manager,
Earth Science Division*
Alfred J. Shaul, Q.C.,
Secretary
Valentine Burda, M.Sc.,
Vice President
Anthony W. Howland-Rose, M.Sc.
Vice President

Solicitor

Alfred J. Shaul, Q.C.

Bankers

Bank of Nova Scotia

Auditors

Laventhol & Horwath

Transfer Agent and Registrar

Guaranty Trust Company of Canada

Stock Listing

Toronto Stock Exchange, symbol "SCT"

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